

## Message Text

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ACTION COME-00

INFO OCT-01 ARA-10 ISO-00 EB-05 DRC-01 CIAE-00 INR-11

NSAE-00 RSC-01 INT-01 OMB-01 TRSE-00 L-03 /034 W

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R 301430Z SEP 74

FM AMCONSUL RIO DE JANEIRO

TO SECSTATE WASHDC 1452

INFO AMEMBASSY BRASILIA

UNCLAS RIO DE JANEIRO 3661

E. O. 11652: N/A

TAGS: BDIS, BR

SUBJ: PRIMARY INDUSTRIES CORP., N.Y.; CIA. SIDERURGICA

BELGO-MINEIRA, BELO HORIZONTE

REF: STATE 199693

1. CONSULATE GENERAL OFFICER HAS DISCUSSED PURCHASE OF PREMIUM ZINC BY CIA. SIDERURGICA BELGO-MINEIRA (CSBM) WITH PRIMARY INDUSTRIES CORP. RIO REPRESENTATIVE HAROLDO FALCAO AND CACEX OFFICIALS. ACCORDING TO FALCAO, IMMEDIATE PROBLEM IS TO CONVINCE CSBM TO RESUBMIT ITS APPLICATION FOR AN IMPORT LICENSE TO CACEX. TWO PREVIOUS APPLICATIONS ALLEGEDLY SUBMITTED BY CSBM HAVE BEEN REFUSED AND CSBM IS RELUCTANT TO GO TO CACEX A THIRD TIME. THIS RELUCTANCE MAY BE BUTTRESSED BY GAIN TO CSBM IN NOT HAVING TO PAY THE PRICE CALLED FOR IN ITS CONTRACT WITH PRIMARY INDUSTRIES, WHICH IS SUBSTANTIALLY HIGHER THAN CURRENT PRICES. FALCAO BELIEVES CSBM SHOULD BE "FIGHTING HARDER" TO GET CACEX APPROVAL IN ORDER TO HONOR ITS CONTRACT. CSBM, ON OTHER HAND, CAN POINT TO PREVIOUS APPLICATIONS AS PROOF OF ITS INTENTION TO HONOR THE CONTRACT. MOREOVER, NOTHING HAS OCCURRED WHICH WOULD LEAD CSBM TO BELIEVE CACEX WOULD CHANGE ITS POSITION REGARDING APPROVAL.

2. OUR CONVERSATIONS WITH CACEX OFFICIALS REVEAL THAT CSBM'S LATEST APPLICATION HAS BEEN SHELVED (ARQUIVADO) AND THAT COMPANY MUST INDEED RE-SUBMIT APPLICATION FOR ITS CONSIDERATION.

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CACEX REFUSAL OF PREVIOUS APPLICATIONS IS BASED ON GOB REGULATIONS WHICH CALL FOR PURCHASE PRICE TO BE COMPARABLE TO

POSTED REUTER'S QUOTATION FOR COMMODITY AT TIME CONTRACT IS SUBMITTED TO CACEX FOR APPROVAL. MARKET FOR ZINC APPARENTLY BROKE SHARPLY IMMEDIATELY AFTER SALE TO CSBM AND HAS CONTINUED DOWNWARD. IT IS NOW APPROXIMATELY \$1,000 PER TON COMPARED TO CONTRACT PRICE OF 1,420 BETWEEN CSBM AND PRIMARY INDUSTRIES. IT APPEARS FURTHER THAT CSBM, SEEING MARKET PRICE FALL, DELAYED IN MAKING FIRST APPLICATION TO CACEX. FALCAO BELIEVES, IN FACT, THAT CSBM NEVER SUBMITTED WHAT LATTER SAYS WAS THE FIRST APPLICATION TO CACEX IN JULY.

3. FALCAO BELIEVES THAT A LETTER FROM CONSULATE GENERAL TO CSBM HEADQUARTERS IN BELO HORIZONTE WOULD BE MOST EFFICACIOUS MEANS OF ENCOURAGING COMPANY TO CONTINUE EFFORTS TO FULFILL ITS CONTRACT WITH PRIMARY INDUSTRIES. WE ARE SENDING SAME.

4. COMMENT: WHILE WE MAY GET CSBM TO RE-SUBMIT APPLICATION FOR IMPORT LICENSE TO CACEX, WE ARE NOT SANGUINE ABOUT CHANCES THAT CACEX WILL APPROVE IT. CACEX OFFICIALS APPEAR TO BE PLAYING TIT-FOR-TAT GAME. THEY HAVE TOLD US THERE HAVE BEEN INSTANCES WHERE AMERICAN FIRMS HAVE REFUSED TO HONOR COMMODITY CONTRACTS WITH BRAZILIAN FIRMS WHEN SITUATION WAS REVERSED. COAL CONTRACTS APPEAR TO HAVE BEEN ESPECIALLY VULNERABLE IN THIS REGARD. OUR RESPONSE TO CACEX HAS BEEN THAT U.S. FIRMS WHICH DO NOT HONOR CONTRACTS DO SO AT THEIR OWN VOLITION AND NOT AS RESULT U.S. GOVERNMENT ACTION. PRESUMABLY, THEY ARE LIABLE TO LEGAL RECOURSE IF A BRAZILIAN FIRM WISHED TO TAKE MATTER TO COURT. WE BELIEVE BEST COURSE OF ACTION FOR PRIMARY INDUSTRIES IS TO REACH AN AGREEMENT WITH CSBM TO RE-NEGOTIATE THE CONTRACT.

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**Subject:** PRIMARY INDUSTRIES CORP., N.Y.; CIA. SIDERURGICA BELGO-MINEIRA, BELO HORIZONTE  
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